25 March, 2007
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# JSC Industrial and Commercial Bank of China Almaty
## Financial Statements

*Year ended 31 December 2006*
*Together with Independent Auditors' Report*

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## INDEPENDENT AUDITORS' REPORT



## NOTES TO FINANCIAL STATEMENTS

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# INDEPENDENT AUDITORS' REPORT

To the Shareholder and Management Board of JSC Industrial and Commercial Bank of China Almaty –

We have audited the accompanying financial statements of JSC Industrial and Commercial Bank of China Almaty, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Industrial and Commercial Bank of China Almaty as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

26 February 2007

# BALANCE SHEET

## As at 31 December 2006

*(Thousands of Kazakh tenge)*

| | Notes | 2006 | 2005 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with NBK | 5 | **3,006,766** | 2,031,871 |
| Due from banks | 6 | **59,416** | 1,119,128 |
| Investment securities held-to-maturity | 7 | **562,437** | 597,588 |
| Property and equipment | 8 | **41,243** | 60,239 |
| Intangible assets | 9 | **23,378** | 27,781 |
| Current income tax asset | | **–** | 5,004 |
| Deferred income tax asset | 10 | **1,926** | – |
| Other assets | | **13,108** | 6,866 |
| **Total assets** | | **3,708,274** | 3,848,477 |
| **Liabilities** | | | |
| Amounts due to credit institutions | 12 | **14,160** | – |
| Amounts due to customers | 13 | **1,855,393** | 2,219,612 |
| Current income tax liability | | **8,796** | – |
| Other liabilities | | **15,910** | 16,983 |
| **Total liabilities** | | **1,894,259** | 2,236,595 |
| **Equity** | | | |
| Share capital | 14 | **1,417,387** | 1,417,387 |
| Retained earnings | | **396,628** | 194,495 |
| **Total equity** | | **1,814,015** | 1,611,882 |
| **Total equity and liabilities** | | **3,708,274** | 3,848,477 |

**Signed and authorised for release on behalf of the Management Board of the Bank**

Zhao Guoqiang — Chairman of the Board

Tatiana Maurer — Chief Accountant

26 February 2007

*The accompanying notes on pages 5 to 20 are an integral part of these financial statements.*

# INCOME STATEMENT

## For the year ended 31 December 2006

*(Thousands of Kazakh tenge)*

| | Notes | 2006 | 2005 |
|---|---|---|---|
| **Interest income** | | | |
| Amounts due from banks and NBK | | **123,240** | 49,434 |
| Securities | | **62,956** | 73,970 |
| Loans to customers | | **–** | 1,312 |
| | | **186,196** | 124,716 |
| **Interest expense** | | | |
| Amounts due to customers | | **(8,562)** | (6,434) |
| **Net interest income** | | **177,634** | 118,282 |
| Reversal of allowance for interest earning assets | 11 | **–** | 5,813 |
| **Net interest income after reversal of interest earning assets** | | **177,634** | 124,095 |
| Fee and commission income | 16 | **176,859** | 130,130 |
| Fee and commission expense | 16 | **(2,272)** | (4,431) |
| **Net fee and commission income** | | **174,587** | 125,699 |
| Gains less losses from foreign currencies: | | | |
| - dealing | | **74,657** | 63,121 |
| - translation differences | | **1,575** | (978) |
| Other income | | **1,698** | 740 |
| **Other non interest income** | | **77,930** | 62,883 |
| Salaries and benefits | 17 | **(62,903)** | (51,154) |
| Other operating expenses | 17 | **(70,424)** | (68,668) |
| Depreciation and amortisation | | **(26,452)** | (28,839) |
| Taxes other than income tax | | **(1,515)** | (1,606) |
| (Reversal) impairment of other assets | 11 | **50** | (82) |
| **Other non interest expense** | | **(161,244)** | (150,349) |
| **Profit before income tax expense** | | **268,907** | 162,328 |
| Income tax expense | 10 | **(66,774)** | (3,688) |
| **Profit for the year** | | **202,133** | 158,640 |

*The accompanying notes on pages 5 to 20 are an integral part of these financial statements.*

# STATEMENT OF CHANGES IN EQUITY

## For the year ended 31 December 2006

*(Thousands of Kazakh tenge)*

| | *Share capital* | *Retained earnings* | *Total equity* |
|---|---|---|---|
| **31 December 2004** | 1,254,880 | 35,855 | 1,290,735 |
| Profit for the year | – | 158,640 | 158,640 |
| Capital contributions | 162,507 | – | 162,507 |
| **31 December 2005** | **1,417,387** | **194,495** | **1,611,882** |
| Profit for the year | – | **202,133** | **202,133** |
| **31 December 2006** | **1,417,387** | **396,628** | **1,814,015** |

*The accompanying notes on pages 5 to 20 are an integral part of these financial statements.*

# CASH FLOW STATEMENT

## For the year ended 31 December 2006

*(Thousands of Kazakh tenge)*

| | *2006* | *2005* |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit before income tax expense | **268,907** | 162,328 |
| Adjustments for: | | |
| Depreciation and amortisation | **26,452** | 28,839 |
| Investment loss on securities held-to maturity | **4,239** | 3,941 |
| Unrealised foreign exchange loss | **981** | 547 |
| Loss from disposal of premises and equipment and intangible assets | **40** | 163 |
| (Reversal) impairment of other assets | **(50)** | 82 |
| Reversal of impairment of interest earning assets | **–** | (5,813) |
| **Operating income before changes in net operating assets** | **300,569** | 190,087 |
| **(Increase) decrease in operating assets:** | | |
| Loans to customers | **–** | 260,000 |
| Other assets | **(1,188)** | 2,270 |
| **Increase (decrease) in operating liabilities:** | | |
| Amounts due to credit institutions | **14,160** | – |
| Amounts due to customers | **(324,364)** | 515,449 |
| Other liabilities | **(5,492)** | (155,162) |
| **Net cash (used in) provided by operating activities before income taxes** | **(16,315)** | 812,644 |
| Income tax paid | **(54,900)** | (7,980) |
| **Net cash (used in) provided by operating activities** | **(71,215)** | 804,664 |
| **Cash flows from investing activities** | | |
| Redemption of investment securities held-to-maturity | **–** | 695,473 |
| Purchase of premises and equipment | **(2,976)** | (4,341) |
| Purchase of intangible assets | **(117)** | (2,131) |
| **Net cash (used in) provided by investing activities** | **(3,093)** | 689,001 |
| **Cash flows from financing activities:** | | |
| Proceeds from issue of share capital | **–** | 162,507 |
| **Net cash provided by financing activities** | **–** | 162,507 |
| Effects of exchange rates changes on cash and cash equivalents | **(10,509)** | 34,350 |
| **Net change in cash and cash equivalents** | **(84,817)** | 1,690,522 |
| **Cash and cash equivalents at the beginning of the year** | **3,150,999** | 1,460,477 |
| **Cash and cash equivalents at the end of the year** | **3,066,182** | 3,150,999 |
| **Supplementary information:** | | |
| Interest received | **186,276** | 123,602 |
| Interest paid | **8,434** | 4,187 |

*The accompanying notes on pages 5 to 20 are an integral part of these financial statements.*

## 1. Principal activities

JSC Industrial and Commercial Bank of China Almaty (the "Bank") provides retail and corporate banking services in Kazakhstan. The Bank was incorporated in the Republic of Kazakhstan in the form of a branch of Industrial and Commercial Bank of China ("ICBC") on 3 March 1993. On 25 March 1994 the branch was transformed into CJSC Industrial and Commercial Bank of China Almaty. On 5 May 2005 the Bank was re registered under the name of JSC Industrial and Commercial Bank of China Almaty. The sole shareholder of the Bank is ICBC (the "Parent"), which is incorporated and operates in the People's Republic of China.

The Bank operates under a general banking licence #174 issued on 9 March 2006.

The registered address of the Bank is 110 Furmanov St., Almaty, 050000, Kazakhstan. The Bank did not have any branches or subsidiaries as at 31 December 2006.

## 2. Basis of preparation

### General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. These financial statements are presented in thousands of Kazakh tenge ("KZT" or "tenge"), unless otherwise indicated.

### Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 "Financial Instruments: Recognition and Measurement": Financial Guarantees, effective for annual periods beginning on or after 1 January 2006. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under the amended IAS 39, financial guarantee contracts are recognised initially at fair value and subsequently remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

The adoption of the above pronouncement did not have a significant impact on the Bank's financial statements.

### IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that have been issued but are not yet effective:

IFRS 7 "Financial Instruments: Disclosures";
Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures";
IFRIC 8 "Scope of IFRS 2";
IFRIC 9 "Reassessment of Embedded Derivatives";
IFRIC 10 "Interim Financial Reporting and Impairment"
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
IFRIC 12 "Service Concession Arrangements"

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the financial statements to evaluate the significance of the Bank's financial instruments, the nature and extent of risks arising from those financial instruments, and the Bank's objectives, policies and processes for managing capital.

*(Thousands of Kazakh tenge)*

## 3. Summary of accounting policies

### Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are impaired, as well as through the amortisation process.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBK and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

### Borrowings

Borrowings, which include amounts due to credit institutions and amounts due to customers, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

### Leases

*Operating – Bank as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

## 3. Summary of accounting policies (continued)

### Allowances for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, is it written off against the related allowance for asset impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the income statement.

### Derecognition of financial assets and liabilities

*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

## 3. Summary of accounting policies (continued)

### Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

### Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| | *Years* |
|---|---|
| Buildings | 8 |
| Furniture and fixtures | 9 |
| Computers and office equipment | 4 |
| Leasehold improvements | 5 |
| Motor vehicles | 5 |

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

### Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software program are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

### Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

## 3. Summary of accounting policies (continued)

### Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

### Share capital

Share capital is recognised at the fair value of consideration received or paid. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

### Contingencies

Contingent liabilities are not recognised in the balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the balance sheet but disclosed when an inflow of economic benefits is probable.

### Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

### Foreign currency translation

The financial statements are presented in Kazakh tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies - translation differences.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBK exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBK exchange rates at 31 December 2006 and 2005 were KZT 127.0 and KZT 133.98 to 1 USD, respectively.

## 4. Significant accounting judgements and estimates

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Taxation*

Kazakh tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2006, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

*(Thousands of Kazakh tenge)*

## 5. Cash and balances with NBK

Cash and balances with NBK comprise:

| | *2006* | *2005* |
|---|---|---|
| Cash on hand | **266,203** | 140,213 |
| Current accounts with NBK | **119,260** | 90,851 |
| Time deposits with NBK up to 90 days | **2,621,303** | 1,800,807 |
| **Cash and balances with NBK** | **3,006,766** | 2,031,871 |

Interest rates and maturities of time deposits are as follows:

| | *2006* | | *2005* | |
|---|---|---|---|---|
| | *%* | *Maturity* | *%* | *Maturity* |
| Time deposits with NBK up to 90 days | **4.5%** | **2007** | 3.5% | 2006 |

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either deposits with NBK or in corresponding accounts or in physical cash and maintained based on average monthly balances of the aggregate of deposits with NBK and corresponding accounts and physical cash. The use of such funds is, therefore, subject to certain usage restrictions. As at 31 December 2006 the obligatory reserves are KZT 137,367 thousand (31 December 2005 – KZT 84,952 thousand).

## 6. Due from banks

Amounts due from banks comprise:

| | *2006* | *2005* |
|---|---|---|
| Current accounts with other banks | **59,416** | 770,673 |
| Time deposits with other banks up to 90 days | **–** | 348,455 |
| **Due from banks** | **59,416** | 1,119,128 |

Interest rates on current accounts with other banks are as follows:

| | *2006* | | | *2005* | | |
|---|---|---|---|---|---|---|
| | *USD* | *EUR* | *JPY* | *USD* | *EUR* | *JPY* |
| Current accounts with the Parent | **1-Month LIBOR less 0.3%** | **1-Month LIBOR less 0.45%** | **1-Month LIBOR less 0.3%** | 1-Month LIBOR less 0.3% | 1-Month LIBOR less 0.45% | 1-Month LIBOR less 0.3% |
| Current accounts with OECD based banks | **Federal Funds rate less 0.5%** | **–** | **–** | Federal Funds rate less 0.3% | – | – |

Interest rates and maturities of time deposits with other banks are as follows:

| | *2006* | | *2005* | |
|---|---|---|---|---|
| | *%* | *Maturity* | *%* | *Maturity* |
| Time deposits with other banks up to 90 days | – | – | 2.2% | 2006 |

## 7. Investment securities held-to-maturity

Investment securities held-to-maturity comprise:

| | *2006* | | *2005* | |
|---|---|---|---|---|
| | *Carrying value* | *Nominal value* | *Carrying value* | *Nominal value* |
| Treasury bills of the Ministry of Finance | **562,437** | **552,450** | 597,588 | 581,900 |

As at 31 December 2006 and 2005, the nominal interest rate and maturity of treasury bills of the Ministry of Finance are 11.125% per annum and 2007, respectively.

*(Thousands of Kazakh tenge)*

## 8. Property and equipment

The movements in property and equipment during 2006 and 2005 are as follows:

| | *Buildings* | *Leasehold improve-ments* | *Computer equipment* | *Vehicles* | *Other* | *Total* |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| 31 December 2004 | 49,035 | 28,551 | 31,062 | 23,716 | 17,938 | 150,302 |
| Additions | – | 928 | 329 | – | 3,084 | 4,341 |
| Disposals | – | – | (2,452) | – | (59) | (2,511) |
| **31 December 2005** | **49,035** | **29,479** | **28,939** | **23,716** | **20,963** | **152,132** |
| Additions | – | 93 | 1,370 | – | 1,513 | 2,976 |
| Disposals | – | – | (344) | – | – | (344) |
| **31 December 2006** | **49,035** | **29,572** | **29,965** | **23,716** | **22,476** | **154,764** |
| **Accumulated depreciation:** | | | | | | |
| 31 December 2004 | (21,716) | (14,787) | (21,930) | (7,117) | (4,321) | (69,871) |
| Charge | (5,884) | (5,788) | (5,618) | (4,743) | (2,416) | (24,449) |
| Disposals | – | – | 2,394 | – | 33 | 2,427 |
| **31 December 2005** | **(27,600)** | **(20,575)** | **(25,154)** | **(11,860)** | **(6,704)** | **(91,893)** |
| Charge | (5,885) | (5,904) | (2,794) | (4,743) | (2,615) | (21,941) |
| Disposals | – | – | 313 | – | – | 313 |
| **31 December 2006** | **(33,485)** | **(26,479)** | **(27,635)** | **(16,603)** | **(9,319)** | **(113,521)** |
| **Net book value:** | | | | | | |
| **31 December 2006** | **15,550** | **3,093** | **2,330** | **7,113** | **13,157** | **41,243** |
| **31 December 2005** | 21,435 | 8,904 | 3,785 | 11,856 | 14,259 | 60,239 |
| 31 December 2004 | 27,319 | 13,764 | 9,132 | 16,599 | 13,617 | 80,431 |

## 9. Intangible assets

The movements in intangible assets during 2006 and 2005 are as follows:

| | *Licences* | *Software* | *Total* |
|---|---|---|---|
| **Cost:** | | | |
| 31 December 2004 | 23,375 | 18,368 | 41,743 |
| Additions | 2,009 | 122 | 2,131 |
| Disposals | – | (160) | (160) |
| **31 December 2005** | **25,384** | **18,330** | **43,714** |
| Additions | – | 117 | 117 |
| Disposals | – | (274) | (274) |
| **31 December 2006** | **25,384** | **18,173** | **43,557** |
| **Accumulated amortisation:** | | | |
| 31 December 2004 | (8,691) | (2,933) | (11,624) |
| Charge | (2,371) | (2,019) | (4,390) |
| Disposals | – | 81 | 81 |
| **31 December 2005** | **(11,062)** | **(4,871)** | **(15,933)** |
| Charge | (2,559) | (1,952) | (4,511) |
| Disposals | – | 265 | 265 |
| **31 December 2006** | **(13,621)** | **(6,558)** | **(20,179)** |
| **Net book value:** | | | |
| **31 December 2006** | **11,763** | **11,615** | **23,378** |
| **31 December 2005** | 14,322 | 13,459 | 27,781 |
| 31 December 2004 | 14,684 | 15,435 | 30,119 |

## 10. Taxation

The Republic of Kazakhstan was the only tax jurisdiction in which the Bank's income is taxable.

The income tax expense comprises:

| | *2006* | *2005* |
|---|---|---|
| Current tax charge | **68,700** | 3,688 |
| Deferred income tax benefit | **(1,926)** | – |
| **Income tax expense** | **66,774** | 3,688 |

The reconciliation between the income tax expense in the accompanying financial statements and income before taxes multiplied by the statutory tax rate of 30% for the periods ended 31 December is as follows:

| | *2006* | *2005* |
|---|---|---|
| Profit before income tax expense | **268,907** | 162,328 |
| Statutory tax rate | **30%** | 30% |
| Theoretical income tax expense at the statutory rate | **80,672** | 48,698 |
| Non deductible expenses: | | |
| Depreciation | **1,782** | 2,142 |
| Communication services | **1,182** | 459 |
| Representation expenses | **960** | 35 |
| Taxes | **323** | 301 |
| Insurance expenses | **193** | 218 |
| Other | **877** | 520 |
| Tax exempt income: | | |
| Government securities | **(18,887)** | (22,191) |
| Change in valuation allowance | **(328)** | (26,494) |
| **Income tax expense** | **66,774** | 3,688 |

Deferred tax assets and liabilities comprise the following:

| | *2006* | *2005* |
|---|---|---|
| Deferred tax assets: | | |
| Property and equipment and intangible assets | **1,926** | 328 |
| Less: valuation allowance | **–** | (328) |
| **Net deferred tax assets** | **1,926** | – |

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional government authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

*(Thousands of Kazakh tenge)*

## 11. Allowances for impairment

The movements in allowances for impairment of interest earning assets are as follows:

| | Loans to customers |
|---|---|
| **31 December 2004** | 5,813 |
| Reversal | (5,813) |
| **31 December 2005** | – |
| **31 December 2006** | – |

The movements in allowances for other assets are as follows:

| | Other assets |
|---|---|
| **31 December 2004** | – |
| Charge | 82 |
| **31 December 2005** | 82 |
| Reversal | **(50)** |
| **31 December 2006** | **32** |

Allowances for impairment of assets are deducted from the carrying amounts of the related assets.

## 12. Amounts due to credit institutions

A non-interest bearing current account in a non OECD bank is included in amounts due to credit institutions as at 31 December 2006.

## 13. Amounts due to customers

The amounts due to customers include the following:

| | *2006* | *2005* |
|---|---|---|
| Current accounts | **1,695,941** | 2,104,613 |
| Time deposits | **89,952** | 114,999 |
| Guarantee deposit | **69,500** | – |
| **Amounts due to customers** | **1,855,393** | 2,219,612 |

As at 31 December 2006 and 2005, the Bank's ten largest customers accounted for 75% and 80%, of the total amounts due to customers.

Amounts due to customers include accounts with the following types of customers:

| | *2006* | *2005* |
|---|---|---|
| **Current accounts:** | | |
| Commercial entities | **470,281** | 1,308,984 |
| Individuals | **361,506** | 320,040 |
| Governmental entities | **864,154** | 475,589 |
| | **1,695,941** | 2,104,613 |
| **Time deposits:** | | |
| Individuals | **89,952** | 114,999 |
| | **89,952** | 114,999 |
| **Held as security against guarantees** | **69,500** | – |
| **Amounts due to customers** | **1,855,393** | 2,219,612 |

## 13. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

| | *2006* | *%* | *2005* | *%* |
|---|---|---|---|---|
| Government entities | **864,154** | **47%** | 475,589 | 21% |
| Individuals | **451,458** | **24%** | 435,039 | 20% |
| Oil and gas | **336,643** | **18%** | 975,749 | 44% |
| Construction | **84,699** | **5%** | 92,804 | 4% |
| Held as security against guarantees | **69,500** | **4%** | – | – |
| Transportation and communication | **14,619** | **1%** | 687 | 0% |
| Trade | **7,915** | **0%** | 12,490 | 1% |
| Services | **7,199** | **0%** | 1,727 | 0% |
| Engineering services | **–** | **0%** | 225,119 | 10% |
| Other | **19,206** | **1%** | 408 | 0% |
| | **1,855,393** | **100%** | 2,219,612 | 100% |

## 14. Equity

As at 31 December 2006 and 2005, the Bank had 2,259 authorised, issued and fully paid common shares. All authorised shares have been issued and fully paid. Each common share is entitled to one vote and is not entitled to any dividends. All shares are tenge denominated and have a nominal value of KZT 627,440 each. Movements in shares outstanding, issued and fully paid are as follows:

| | **Number of shares** | **Nominal amount** |
|---|---|---|
| | **Common** | **Common** |
| **31 December 2004** | 2,000 | 1,254,880 |
| Increase in share capital | 259 | 162,507 |
| **31 December 2005** | 2,259 | 1,417,387 |
| Increase in share capital | – | – |
| **31 December 2006** | **2,259** | **1,417,387** |

## 15. Commitments and contingencies

### Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

| | *2006* | *2005* |
|---|---|---|
| **Credit related commitments** | | |
| Guarantees | **69,500** | – |
| Less cash collateral | **(69,500)** | – |
| **Commitments and contingencies** | **–** | – |

## 16. Net fee and commission income

Net fee and commission income comprises:

| | *2006* | *2005* |
|---|---|---|
| Transfer operations | **156,043** | 113,332 |
| Cash operations | **12,705** | 8,171 |
| Other | **8,111** | 8,627 |
| **Fee and commission income** | **176,859** | 130,130 |
| | | |
| Transfer operations | **(1,303)** | (2,501) |
| Other | **(969)** | (1,930) |
| **Fee and commission expense** | **(2,272)** | (4,431) |
| **Net fee and commission income** | **174,587** | 125,699 |

## 17. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise:

| | *2006* | *2005* |
|---|---|---|
| Salaries and bonuses | **56,664** | 45,759 |
| Social tax | **6,239** | 5,395 |
| **Salaries and benefits** | **62,903** | 51,154 |
| | | |
| Rent | **17,082** | 17,082 |
| Information technology services | **9,206** | 5,861 |
| Security | **8,524** | 8,686 |
| Communication expense | **8,491** | 7,846 |
| Administrative expenses | **8,267** | 8,048 |
| Cash collection expenses | **5,826** | 6,273 |
| Representation expenses | **3,202** | 1,955 |
| Professional services | **2,874** | 3,848 |
| Deposit insurance | **2,401** | 2,960 |
| Business trip expenses | **2,321** | 2,570 |
| Transportation | **1,413** | 1,009 |
| Other | **817** | 2,530 |
| **Other operating expenses** | **70,424** | 68,668 |

## 18. Financial risk management

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates. A summary description of the Bank's risk management policies in relation to those risks follows.

### Credit Risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by borrower and product by industry sector and by region are approved regularly by the Management Board. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

*(Thousands of Kazakh tenge)*

## 18. Financial risk management (continued)

### Geographical concentration

The geographical concentration of the Bank's monetary assets and liabilities is set out below:

| | *2006* | | | | *2005* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Kazakhstan* | *OECD* | *Non-OECD* | *Total* | *Kazakhstan* | *OECD* | *Non-OECD* | *Total* |
| **Assets:** | | | | | | | | |
| Cash and balances with NBK | **3,006,766** | – | – | **3,006,766** | 2,031,871 | – | – | 2,031,871 |
| Due from banks | **6,606** | **19,768** | **33,042** | **59,416** | 352,666 | 760,019 | 6,443 | 1,119,128 |
| Investment securities held–to-maturity | **562,437** | – | – | **562,437** | 597,588 | – | – | 597,588 |
| Current income tax asset | – | – | – | – | 5,004 | – | – | 5,004 |
| Deferred income tax asset | **1,926** | – | – | **1,926** | – | – | – | – |
| Other assets | **1,912** | **11,196** | – | **13,108** | 6,866 | – | – | 6,866 |
| | **3,579,647** | **30,964** | **33,042** | **3,643,653** | 2,993,995 | 760,019 | 6,443 | 3,760,457 |
| **Liabilities:** | | | | | | | | |
| Amounts due to credit institutions | – | – | **14,160** | **14,160** | – | – | – | – |
| Amounts due to customers | **1,855,393** | – | – | **1,855,393** | 2,219,612 | – | – | 2,219,612 |
| Current income tax liability | **8,796** | – | – | **8,796** | – | – | – | – |
| Other liabilities | **1,372** | – | **14,538** | **15,910** | 16,983 | – | – | 16,983 |
| | **1,865,561** | – | **28,698** | **1,894,259** | 2,236,595 | – | – | 2,236,595 |
| **Net balance sheet position** | **1,714,086** | **30,964** | **4,344** | **1,749,394** | 757,400 | 760,019 | 6,443 | 1,523,862 |

### Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

*(Thousands of Kazakh tenge)*

## 18. Financial risk management (continued)

### Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily US dollars and Euro). These limits also comply with the minimum requirements of the NBK. The Bank's exposure to foreign currency exchange rate risk is as follows:

| | *2006* | | | | *2005* | | | |
|---|---|---|---|---|---|---|---|---|
| | *KZT* | *USD/ EURO* | *Other foreign currencies* | *Total* | *KZT* | *USD/ EURO* | *Other foreign currencies* | *Total* |
| **Assets:** | | | | | | | | |
| Cash and balances with NBK | **2,871,726** | **135,040** | – | **3,006,766** | 1,991,984 | 39,887 | – | 2,031,871 |
| Due from banks | **2,110** | **57,306** | – | **59,416** | 1,284 | 1,116,564 | 1,280 | 1,119,128 |
| Investment securities held-to-maturity | – | **562,437** | – | **562,437** | – | 597,588 | – | 597,588 |
| Current income tax asset | – | – | – | – | 5,004 | – | – | 5,004 |
| Deferred income tax asset | **1,926** | – | – | **1,926** | – | – | – | – |
| Other assets | **13,108** | – | – | **13,108** | 6,866 | – | – | 6,866 |
| | **2,888,870** | **754,783** | – | **3,643,653** | 2,005,138 | 1,754,039 | 1,280 | 3,760,457 |
| **Liabilities:** | | | | | | | | |
| Amounts due to credit institutions | – | **14,160** | – | **14,160** | – | – | – | – |
| Amounts due to customers | **1,143,512** | **711,881** | – | **1,855,393** | 446,043 | 1,773,569 | – | 2,219,612 |
| Current income tax liability | **8,796** | – | – | **8,796** | – | – | – | – |
| Other liabilities | **6,156** | **9,754** | – | **15,910** | 6,566 | 10,417 | – | 16,983 |
| | **1,158,464** | **735,795** | – | **1,894,259** | 452,609 | 1,783,986 | – | 2,236,595 |
| **Net balance sheet position** | **1,730,406** | **18,988** | – | **1,749,394** | 1,552,529 | (29,947) | 1,280 | 1,523,862 |

The Bank's principal cash flows (revenues, operating expenses) are largely generated in tenge. As a result, future movements in the exchange rate between the tenge and US dollars or euro will affect the carrying value of the Bank's US dollar and euro denominated monetary assets and liabilities.

### Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee.

As at 31 December the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments are as follows:

| | *2006* | | *2005* | |
|---|---|---|---|---|
| | *KZT* | *USD* | *KZT* | *USD* |
| Cash and cash equivalents | **4.00%** | **6.79%** | 2.23% | 4.49% |
| Investment securities held-to-maturity | – | **11.13%** | – | 11.13% |
| Amounts due to customers, excluding current accounts | – | **5.50%** | – | 5.50% |

## 18. Financial risk management (continued)

### Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the asset/liability management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of inter bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables provide an analysis of monetary assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

| | *2006* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *On demand* | *Less than 1 month* | *1 to 3 months* | *3 months to 1 year* | *1 to 5 years* | *Over 5 years* | *Total* |
| **Monetary assets:** | | | | | | | |
| Cash and balances with NBK | 385,463 | 2,621,303 | – | – | – | – | 3,006,766 |
| Due from banks | 59,416 | – | – | – | – | – | 59,416 |
| Investment securities held–to-maturity | – | – | – | 562,437 | – | – | 562,437 |
| Deferred income tax asset | 1,926 | – | – | – | – | – | 1,926 |
| Other assets | 6,073 | 24 | 150 | 6,861 | – | – | 13,108 |
| | 452,878 | 2,621,327 | 150 | 569,298 | – | – | 3,643,653 |
| **Monetary liabilities:** | | | | | | | |
| Amounts due to credit institutions | 14,160 | – | – | – | – | – | 14,160 |
| Amounts due to customers | 1,698,882 | 63,615 | 6,118 | 76,639 | 10,139 | – | 1,855,393 |
| Current income tax liability | – | – | 8,796 | – | – | – | 8,796 |
| Other liabilities | 15,388 | 522 | – | – | – | – | 15,910 |
| | 1,728,430 | 64,137 | 14,914 | 76,639 | 10,139 | – | 1,894,259 |
| **Net position** | (1,275,552) | 2,557,190 | (14,764) | 492,659 | (10,139) | – | 1,749,394 |
| **Accumulated gap** | (1,275,552) | 1,281,638 | 1,266,874 | 1,759,533 | 1,749,394 | 1,749,394 | |

| | *2005* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *On demand* | *Less than 1 month* | *1 to 3 months* | *3 months to 1 year* | *1 to 5 years* | *Over 5 years* | *Total* |
| **Monetary assets:** | | | | | | | |
| Cash and balances with NBK | 231,064 | 1,800,807 | – | – | – | – | 2,031,871 |
| Due from banks | 770,673 | 348,455 | – | – | – | – | 1,119,128 |
| Investment securities held-to-maturity | – | – | – | 9,005 | 588,583 | – | 597,588 |
| Current income tax asset | – | – | 5,004 | – | – | – | 5,004 |
| Other assets | – | 1,424 | – | 5,442 | – | – | 6,866 |
| | 1,001,737 | 2,150,686 | 5,004 | 14,447 | 588,583 | – | 3,760,457 |
| **Monetary liabilities:** | | | | | | | |
| Amounts due to customers | 2,105,052 | 956 | 13,055 | 99,224 | 1,325 | – | 2,219,612 |
| Other liabilities | 14,323 | 963 | 1,697 | – | – | – | 16,983 |
| | 2,119,375 | 1,919 | 14,752 | 99,224 | 1,325 | – | 2,236,595 |
| **Net position** | (1,117,638) | 2,148,767 | (9,748) | (84,777) | 587,258 | – | 1,523,862 |
| **Accumulated gap** | (1,117,638) | 1,031,129 | 1,021,381 | 936,604 | 1,523,862 | 1,523,862 | |

## 19. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

## 19. Fair values of financial instruments (continued)

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value.

| | *2006* | | *2005* | |
|---|---|---|---|---|
| | *Carrying Amount* | *Fair Value* | *Carrying Amount* | *Fair Value* |
| Financial assets: | | | | |
| Investment securities held-to-maturity | **562,437** | **571,228** | 597,588 | 655,983 |

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

**Investment securities held-to-maturity**

Market values have been used to determine the fair value of investment securities held-to-maturity traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

## 20. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

| | *2006* | | *2005* | |
|---|---|---|---|---|
| | *Parent* | *Key management personnel* | *Parent* | *Key management personnel* |
| Current accounts at 1 January | **760,019** | – | 420,678 | – |
| Receipts on current accounts during the year | **51,438,890** | – | 32,043,641 | – |
| Payments on current accounts during the year | **52,130,939** | – | 31,731,293 | – |
| Change due to foreign exchange (loss) gain | **(34,930)** | – | 26,993 | – |
| Current accounts at 31 December | **33,040** | – | 760,019 | – |
| Interest income on current accounts | **28,849** | – | 17,280 | – |
| Deposits at 1 January | – | **3,542** | – | 1,070 |
| Receipts on deposits during the year | – | **120,681** | – | 105,027 |
| Payments of deposits during the year | – | **104,588** | – | 100,351 |
| Change due to foreign exchange loss | | **(350)** | | (2,204) |
| Deposits at 31 December | – | **19,285** | – | 3,542 |
| Interest expense on deposits | – | **12** | – | 1 |

Compensation of key management personnel which consisted of 3 members of the Management Board was comprised of the following:

| | *2006* | *2005* |
|---|---|---|
| Salaries and other short-term benefits | **15,046** | 14,020 |
| Social security costs | **1,327** | 1,215 |
| **Total key management compensation** | **16,373** | 15,235 |